



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

March 12, 2008

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has prepared the enclosed estimate of the direct spending and revenue effects of the Medicare Funding Warning Response Act of 2008, as submitted by the Secretary of Health and Human Services on February 15, 2008, and introduced as H.R. 5480.

By statute, the issuance of a Medicare funding warning is based on projections by the Medicare Trustees of when Medicare funding from general revenues (that is, spending not covered by dedicated sources, such as the Hospital Insurance payroll tax and Part B or Part D premiums) will exceed 45 percent. In their most recent report (issued in March 2007), the trustees estimated that funding from general revenues would reach 45 percent in 2013.

Under current law, CBO also projects that Medicare funding from general revenues will exceed 45 percent in fiscal year 2013. CBO estimates that, under H.R. 5480, the 45 percent threshold would first be crossed in fiscal year 2014. CBO's projections do not determine whether or not there will be a funding warning.

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If you wish further details on this estimate, we will be pleased to provide them.
The CBO staff contacts are Shinobu Suzuki and Tim Gronniger.

Sincerely,

for Robert A. Orszag

Peter R. Orszag
Director

Enclosure

cc: Honorable Paul Ryan
Ranking Member

Identical letter sent to the Honorable Kent Conrad.

CBO Estimate of the Direct Spending and Revenue Effects of the Medicare Funding Warning Response Act of 2008, as submitted by the Secretary of Health and Human Services on February 15, 2008 and introduced as H.R. 5480

By fiscal year, in billions of dollars.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN DIRECT SPENDING													
Title I Value-based purchasing	0	0	0	0	0	0	0	0	0	0	0	0	0
Release of physician performance measures	0	0	0	0	0	0	0	0	0	0	0	0	0
Title II Medical malpractice: effects on Medicare	0	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-2.2	-4.8
Medical malpractice: effects on Medicaid and FEHB	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.6	-1.5
Medicare Advantage interactions	0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.5	-1.3
Premium interactions	0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.6	1.3
Title III Part D income-related premium	0	-0.1	-0.4	-0.5	-0.7	-0.9	-1.2	-1.5	-1.8	-2.3	-2.8	-2.6	-12.1
Total, Changes in Direct Spending	0	-0.6	-0.9	-1.1	-1.2	-1.5	-1.8	-2.1	-2.5	-3.0	-3.6	-5.2	-18.3
CHANGES IN REVENUES													
On-budget (Income and Hospital Insurance payroll taxes)	0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	1.0
Off-budget (Social Security payroll taxes)	0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.5
Total, Changes in Revenues	0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.5	1.6
CHANGES IN DEFICIT													
Changes in on-budget deficit	0	-0.6	-0.9	-1.1	-1.3	-1.6	-1.9	-2.3	-2.7	-3.2	-3.8	-5.5	-19.3
Changes in unified budget deficit	0	-0.6	-0.9	-1.2	-1.3	-1.7	-2.0	-2.3	-2.7	-3.2	-3.8	-5.7	-19.8
Memorandum:													
Components of the Part D income-related premium policy													
Income-related Part D premiums	0	-0.1	-0.2	-0.3	-0.4	-0.5	-0.7	-0.9	-1.2	-1.5	-1.8	-1.4	-7.5
Benefits and basic premiums for beneficiaries who decline Part D	0	-0.1	-0.2	-0.3	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-1.0	-1.2	-4.6
Summary of effects on factors in the dedicated revenue funding calculation													
Effects on Medicare benefits	0	-0.4	-0.8	-0.9	-1.0	-1.1	-1.2	-1.4	-1.6	-1.8	-2.0	-4.2	-12.2
Effects on dedicated revenues (positive = increase in revenues)	0	0.1	0.0	0.0	0.1	0.3	0.4	0.6	0.8	1.0	1.4	0.5	4.7
General revenue funding as percent of total outlays[†]													
Under CBO's March 2008 baseline (percent)	40.9	42.3	42.4	42.9	43.8	45.1	46.1	47.1	48.2	49.4	50.6		
Under the President's proposal (percent)	40.9	42.2	42.3	42.8	43.6	45.0	46.0	46.9	48.0	49.1	50.3		
Does general revenue funding exceed 45%[†]													
Under CBO's March 2008 baseline	no	no	no	no	no	yes	yes	yes	yes	yes	yes		
Under the President's proposal	no	no	no	no	no	no	yes	yes	yes	yes	yes		

Notes: FEHB = Federal employees health benefits program; HI = Hospital insurance (Medicare Part A)

The cost to the Centers for Medicare & Medicaid Services and to the Social Security Administration to implement H.R. 5480 would be subject to appropriation. CBO has not estimated those costs.

[†] By statute, the issuance of a Medicare funding warning is based on projections by the Medicare Trustees of when Medicare funding from general revenues (that is, spending not covered by dedicated sources, such as the Hospital Insurance payroll tax and Part B or Part D premiums) will exceed 45 percent. Under current law, CBO projects that Medicare funding from general revenues will exceed 45 percent in fiscal year 2013. CBO also estimates that, under H.R. 5480, the 45 percent threshold would be crossed in fiscal year 2014. CBO projections do not determine whether or not there will be a funding warning.